TEACHERS' RETIREMENT BOARD

BUDGETS AND AUDITS COMMITTEE

SUBJECT: School District Audits Final Reports   ITEM NUMBER: 7
            and Compliance Final Report

                                                           ATTACHMENT(S):

ACTION: ___   DATE OF MEETING: April 4, 2002

INFORMATION: X   PRESENTER(S): Way Lee

School District Final Reports – Defined Benefit Program

1. Oakland Unified School District
2. Modesto City Schools
3. Lodi Unified School District
4. Los Angeles Unified School District
5. West Contra Costa Unified School District
6. Yuba Community College District
7. Santa Cruz County Office of Education – ROP

In accordance with auditing standards, the results of our audits are presented to the Budgets and Audits Committee to facilitate its oversight responsibility. The attached Executive Summary presents the highlights of the final audit reports we issued in the period October 2001 through March 2002.

Oakland Unified School District (DB):

- Bilingual Stipends - OUSD did not report to CalSTRS creditable bilingual stipends totaling $2,567,755 paid from February 1999 (the earliest month that the District had records of payment readily available for auditors' review) through February 2001. These stipends are paid biannually with no CalSTRS contributions withheld. Therefore, employer and member contributions totaling $417,261 are due to CalSTRS.

- Restructuring of a non-cash fringe benefit to a cash allowance - OUSD did not properly restructure a fringe benefit to a cash allowance for non-represented management employees. The fringe benefit was a district purchased annuity (referred to by the District as a "District Supplemental Annuity Plan" or "DSA") from an annuity administrator. OUSD correctly did not report to CalSTRS amounts it paid for this annuity. At a later date, OUSD gave these employees a cash allowance in lieu of the DSA. The employees were not required to pay into an annuity plan from this cash allowance. OUSD reported this cash allowance to CalSTRS as creditable compensation even though the original fringe benefit (DSA) was not properly restructured into cash compensation, therefore making the annuity stipend non-creditable. As a result of the improper restructuring, the District overstated three retired members' earnings by a total of $86,268.97 and a total of unmodified retirement allowances by $1,052.39 per month. The net present value to account for the current increase in retired members' monthly allowances is approximately $168,755.26. In addition, the three retired members and two active members overpaid employer and member contributions by a total of $20,304.11

  District's Response: OUSD agreed with the bilingual stipends finding. The District stated that restructure of the direct paid annuity happened due to unintentional errors and not any intention to enhance members' retirement allowances. The District proposed that it pay contributions on the DSA as if this benefit was paid as a cash stipend to the members at the time period in question.

  CalSTRS' Evaluation of District's Response: Because the restructure was inconsistently applied, we believe that at least in some circumstances, the confidential administrators chose when they wanted their District direct-paid annuity to be changed to a cash stipend. Intending to follow the law is different than following the law. Contributions paid to CalSTRS can only be taken on creditable compensation.

Modesto City Schools (DB):

- Department Chair Stipends - Modesto City Schools (MCS) reported as creditable compensation to CalSTRS non-creditable stipends paid to teachers. The District paid stipends up to $2,616/year for performing the Department Chair duties without release time (except for English Department and Athletic Director who both received release time for these duties). The District paid approximately $151,907 worth of non-creditable Department Chair stipends 110 teachers during the 1999-00 school year.

  MCS overpaid employer and member contributions totaling approximately $24,685 for the 110 teachers during the 1999-00 school year. The two retired members' unmodified monthly retirement allowances were overstated by a total of $143.66 per month. The overstatements created a present value cost to CalSTRS of approximately $22,000.

- Extra Duty Pay - Modesto City Schools reported as creditable compensation to CalSTRS non-creditable stipends it paid to teachers for teaching a class or performing other extra duties in addition to their normal workday. According to MCS' lists of eighth period assignments, the District paid these extra duty stipends totaling $ 772,425 ($125,519 of employee and employer contributions) to 141 teachers during the 1998-99 school year and $ 1,281,744 ($208,283 of employee and employer contributions) to 217 teachers during the 1999-2000 school year. As a result, nine retired members' earnings were overstated by a total of $58,717 and their unmodified monthly retirement allowances were overstated by a total of $3,945 per month. The overstatements created a present value cost to CalSTRS of approximately $605,115.

  District's Response: Detrimental Reliance - Modesto City Schools has used the optional period for over 15 years. During this time, STRS was aware of its treatment of the optional period stipend as creditable compensation. Individual members have relied on the STRS staff's review of compensation and benefits, including full acknowledgement of the stipend in benefit worksheets, in making their retirement decisions.

  CalSTRS' Evaluation of District's Response: Even though the 8th period stipend is not creditable compensation, certain members and the District relied upon incorrect advice given by CalSTRS. We were not aware CalSTRS gave this advice until the District and some retirees brought it to our attention after the draft audit report was issued. Therefore, we will not ask the District to make any adjustments to the CalSTRS form F-496 for the members identified in this finding. However, the District must report extra period stipends in compliance with Education Code Section 22119.2(f) (AB 2700) starting July 1, 2002.

Lodi Unified School District (DB):

- Excess Sick Leave - The District did not report excess sick leave days separately from unused basic sick leave days and pay CalSTRS the present value of $94,552 needed to fund the additional retirement benefit related to the excess sick days service credit for these four retirees. Current management employees are accumulating approximately 420 excess sick leave days annually with a present value worth approximately $50,000.

- Mandatory Membership – The District did not report non-member substitute teachers as members when they qualified for membership. LUSD owes CalSTRS $4,136 in employer and member contributions.

- Post Retirement Earnings – LUSD did not report all post retirement earnings to CalSTRS for rehired retired members. As a result, CalSTRS will reduce a member's retirement allowance by a lump sum of $3,340.

- Incorrect Base Service Days – LUSD reported incorrect service days for a member, causing her retirement allowance to be overstated by approximately $28/month. This overstatement has a present value cost to CalSTRS of approximately $4,873.

District's Response: LUSD has or will implement our corrective actions.

Los Angeles Unified School District Audit Survey (DB):

We determined that LAUSD was not at high risk for incorrectly reporting member information to CalSTRS. However, LAUSD is paying $25 million dollars of bilingual stipends that will become creditable compensation as of July 1, 2002. Therefore, LAUSD will be required to annually remit approximately $4 million of employer and member contributions to CalSTRS.

District's Response: In the draft audit survey report, CalSTRS asked LAUSD to retroactively report these stipends as creditable compensation from July 1, 1997 and pay the employer and member contributions. LAUSD responded by stating that these stipends were not creditable because they were not <u>paid</u> in the same dollar amount or percentage of salary (as required by Education Code 22119.2(a)(6)). LAUSD states that it will report these stipends as creditable compensation

CalSTRS' evaluation of the District's Response: Effective July 1, 2002, the requirement that earnings paid in addition to regular salary are creditable if <u>payable</u> in the same dollar amount or same percentage of salary. Therefore, we agree with the District's response and

will require the District to report bilingual stipends as creditable compensation starting July 1, 2002.

West Contra Costa Unified School District (DB):

- Excess Sick Leave - The District did not report excess sick leave days separately from unused basic sick leave days and pay CalSTRS the present value of $5,378 needed to fund the additional retirement benefit related to the excess sick days service credit for these four retirees. In addition, the District has not reported excess sick leave for several other retired members.

- Base Service Days and Unused Sick Leave Days - The District under-reported base service days and over-reported unused sick leave balances for two retired members. These errors resulted in overstatements of their monthly retirement allowances by $18.81 and $23.98.

District's Response: WCCUSD agreed with the findings and will implement our corrective actions.

Yuba Community College District (CBBP):

- Mandatory Membership - YCCD should have enrolled a CBBP participant in the Defined Benefits Program because her basis of employment was greater than 50 percent. As a result, YCCD incorrectly remitted $2,740 of CBBP contributions instead of correctly remitting $5,566 of DB contributions into the system.

- Insufficient Notice of Employee's Rights to Elect CalSTRS DB Membership - YCCD only provided newly hired employees with the CalSTRS Form CB 533, Employee Notification and Election Form and the CBBP election packet upon request (except during the initial CBBP enrollment period). Therefore, newly hired employees may not have critical information to make an informed decision regarding which CalSTRS retirement program they would want to enroll in. As a result, YCCD incorrectly remitted $567 of CBBP contributions instead of correctly remitting $1,306 of DB contributions into the system.

District's Response: YCCD agreed with the findings and will implement our corrective actions.

Santa Cruz County Office of Education Regional Occupational Program (DB):

- Incorrect Pay Rates - The SCCOE-ROP reported creditable compensation with incorrect pay rates. These errors caused the service credit to be understated by a total of .16 year

for two members and member and employer contributions to be under-remitted to CalSTRS by $136. In addition, SCCOE-ROP has a system error that could reduce the chance of an employee being enrolled in mandatory Defined Benefits Program membership based on hours worked in a pay period.

- Over-reporting of Service Credit - The SCCOE-ROP did not properly report members who were also employed by another District in Santa Cruz County. The errors caused the service credit for two part-time members to be overstated by .79 year and member and employer contributions of $3,982 to be over-remitted to CalSTRS. This condition could exist for up to 54 more members.

- Insufficient Notice of Employee's Rights to Elect CalSTRS DB Membership - The SCCOE-ROP did not have on file all CalSTRS forms MR-350, Permissive Election and Acknowledgement of Receipt of CalSTRS Defined Benefit Program Membership Information, and did not report one instructor's earnings as a member according to her election. Therefore, newly hired employees may not have had critical information to make an informed decision regarding which CalSTRS retirement program they would want to enroll in. The SCCOE-ROP did not report the one employee identified in this finding as a DB member; thus, her service credit is understated by .46 year and contributions were under-remitted by $1,883.

District's Response: SCCOE-ROP agreed with the findings with the exception for corrections to one employee's account and will implement our corrective actions.

CalSTRS' evaluation of the District's Response: We asked the SCCOE-ROP to send additional documentation to support its disagreement. To date, the District has not.